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SUBJECT: GOA ECONOMIC OFFICIALS DEFEND MODEL, PROMISE TO  
PAY DEBT AT HIGH-PROFILE CONFERENCE

Classified By: Ambassador E. Anthony Wayne for Reasons 1.5 (b and d)

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Summary  
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¶1. (C) A Buenos Aires Council of the Americas (CoA) conference convoked key members of the GoA's economic team, including new Chief of Cabinet Sergio Massa, Central Bank President Martin Redrado, and Economy Minister Carlos Fernandez. To an audience of domestic and international business leaders, these GoA ministers delivered a spirited defense of the GoA's economic policy mix: the model of twin fiscal and trade surpluses, undervalued currency and reserve accumulation works, allowing the central bank to easily reverse an April/May episode of deposit flight; the GoA intends to continue on the same policy path with only minor adjustments; financial markets that continue to over-price Argentine risk underestimate the economy's strong fundamentals; and the GoA has the wherewithal to meet its debt obligations and will do so. Neither Massa nor Fernandez mentioned domestic inflation (currently estimated in the 25% range), while Redrado briefly noted that inflation rates need to be lowered via a coordinated monetary, fiscal, competition, salary, and income policy response. On the bond "holdout" settlement issue, Massa said the GoA had "no offer to make the bondholders." Business leaders had hoped the GoA would use the CoA conference as a vehicle to announce budget rationalization measures, including tariff increases to reduce subsidies and cuts in fiscal expenditures, along with initiatives to restructure Paris Club arrears and re-open the bond "holdout" issue. None of these expectations were met. End Summary.

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Chief of Staff Massa: No on New Offer to Holdouts  
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¶2. (U) In a Council of the Americas (CoA) August 27 conference in Buenos Aires on the impact of global volatility on emerging markets, senior members of the GoA economic cabinet addressed 300-plus senior domestic and international business representatives and media. Following opening remarks by CoA President Susan Segal and Argentine Chamber of Commerce President Carlos de la Vega, Chief of Cabinet Sergio Massa offered a spirited defense of the GoA's economic and social policy mix. Referring to dire media reports on the state of Argentina's economy following recent rating agency downgrades, he said "If you look at the (GoA's healthy economic) statistics, it's entirely another economy."

¶3. (U) Massa described five GoA social and economic policy priorities: (1) education, with a goal of dedicating 6% of GDP to education in the medium term; (2) social security, expanding and making more transparent current unemployment

and pension re-distribution programs; (3) public investment, with the state helping where the private sector will not go and emphasizing primary infrastructure, including water and sewage facilities; (4) taxes, with an emphasis on fairly funding redistributive income transfers; and (5) creating jobs, the GoA's single most important priority and one on which it the NK and CFK administrations have delivered. "Of course, the State will continue to intervene to deliver needed services," Massa concluded.

¶4. (U) On 2008/09 sovereign debt maturities, Massa argued the GoA remains solvent, with adequate fiscal tools. "No well-intentioned person can doubt that Argentina is going to meet each and every one of its commitments." In a follow-on discussion with journalists, and in response to recent media speculation that the GoA is considering a Barclays Bank proposal to re-open the bond "holdout" settlement issue, Massa said the GoA had "no offer to make the bondholders." Returning to the CoA conference theme of the impact of global volatility on emerging markets, Massa said that "in a world of changes, Argentina has an opportunity," noting that of the nations in South America, Argentina is one of the top three for investment destinations. "Argentina is a friendly country to people who want to come and invest. It is even more friendly for those who've put in a dollar and want to keep putting in more dollars because that generates work for Argentines." He concluded that it would be an error for Argentina to resign itself to being a country that just exports services (sic - he likely meant primary commodities) and asked the numerous company reps present to target their investment budgets here.

¶5. (C) Comment: As a new Chief of Cabinet making his mark,

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Massa's comments had been much anticipated by the domestic and international business community as an signal of possible CFK administration economic policy modifications. From what we heard, they went away disappointed: Massa spoke in very broad terms defending the GoA's interventionist economic model and gave no indications that the CFK administration would acknowledge inflation and official statistics credibility issues as an important concern, or deal soon with outstanding Paris Club and bond holdout issues. Press commentary welcomed his remarks about repaying the debt, but lamented that he had no agreement from his President to go farther on key issues. End Comment.

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Central Bank: System is Sound, Need to tackle Inflation  
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¶6. (U) In a 40-minute address replete with voluminous statistical references, Central Bank President Redrado defended his central bank's (BCRA) management of monetary and currency policy. Noting that he had recently returned from a U.S. Federal Reserve Bank conference in Jackson Hole, Wyoming on global financial market volatility, Redrado said that Argentina, while not at the center of the global market crisis, is not immune from its secondary impacts. Redrado quoted President Truman's "The buck stops here" motto, and argued that his BCRA took all necessary measures to contain domestic market jitters that saw significant deposit flight from the banking system April 23 - May 26 this year. A "professional and surgical" BCRA response included the sale of dollar reserves and intervention in currency futures markets, resulting in a reversal of deposit outflows and an appreciation of the nominal exchange rate. "We've been successful" and the evidence for that, Redrado said, is that Argentine individuals and businesses remain willing to operate in Pesos rather than in Dollars.

¶7. (U) On GoA debt policy, Redrado noted the GoA's current 3.5% average primary fiscal surplus (PFS) and said a 1.3% PFS would be adequate to sustain a Debt/GDP ratio at its current 53% level. The weight of debt maturity payments had declined

to 1.8% of GDP and 7% of tax collection in June 2008, compared with 3.7% of GDP and 22% of tax collection in 2001, he said. Argentina has also cut its foreign currency debt to 50% of the total this year, down from a historical average of 80% and a full 97% in 2001. Only in a rushed final closing sentence did Redrado utter the word inflation, saying that inflation rates must be lowered and that this will require a coordinated monetary, fiscal, competition, salary, and income policy response.

¶8. (C) Comment: Redrado's performance was true to form -- a statistics-laden paean to the BCRA's responsible management and successful containment of April/May 2008 market jitters. His talk ended with the briefest acknowledgement that inflation is a concern and his call for "coordinated" fiscal and monetary policy was taken by conference attendees as laying the blame for high levels of inflation squarely on the GoA's profligate fiscal policy. End Comment.

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Economy Minister Fernandez: The Model Is Sound/Sustainable  
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¶9. (U) In contrast to the largely extemporaneous presentations by Massa and Redrado, Economy Minister Carlos Fernandez read 15 minutes of prepared remarks which emphasized the GoA's efforts to reduce unemployment and income inequality while maintaining investment growth. With Argentina's 8 % growth rate since 2003 comparable to that of China and India, Fernandez said the GoA continues to make income re-distribution its "primary concern." Argentina's 20% investment growth rate is "not only explained by the sound macroeconomic situation, but also by the active policies the GoA has made to promote investment." These measures include an investment promotion law making its way through Congress, as well as a software development promotion law and a biofuels law that are already in place.

¶10. (C) Comment: As in earlier public remarks defending the GoA's economic model, Carlos Fernandez declined to even mention the issue of high inflation that has bedeviled the administration of Christina Fernandez de Kirchner. His tightly scripted comments, his decision not to address credibility concerns surrounding INDEC, the GOA statistics agency under his Ministry's nominal control, and his refusal to answer more than a few perfunctory questions from the press after his remarks were widely commented on at the

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conference. "Today Fernandez again proved himself a shadow of Nestor Kirchner, who is Argentina's true Economy Minister. Such a shame," said the the head of Fiat's Argentine subsidiary (PROTECT) on the margins of the conference. End Comment.

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Ambassador Timerman: Bilateral Agricultural Frictions on GoA Agenda  
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¶11. (U) Following Ambassador Wayne's remarks highlighting the scope and depth of U.S. Argentine bilateral relations (posted on Embassy website), Argentine Ambassador to the U.S. Hector Timerman highlighted an active bilateral engagement agenda and expanding congressional relations between our two countries. The U.S. is Argentina's third largest export market (with 14% of Argentine exports entering duty-free under U.S. GSP unilateral trade benefits) and second largest source of imports, Timerman noted, as well as being Argentina's single largest source of investment since 2005. He highlighted common U.S./Argentine strategic interests in human rights, counter-terror, anti-drug, environmental and trafficking-in-persons issues. He emphasized that four substantial agreements on alternative energy, nanotechnology, educational exchanges, and cultural exchanges had been signed during senior plenary bilateral consultations held in Buenos

Aires July 2008.

¶12. (U) On congressional relations, Timerman noted recent visits by two high-level U.S. Congress delegations headed by U.S. Representative Engel and Senator Dodd. He noted the planned visit of Representative Peterson, Chairman of the House Agriculture Committee, in early September, and pointedly noted that the GoA hoped to use this visit to address longstanding GoA complaints on U.S. restrictions on the import of Argentine beef and citrus products.

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Doha Development Round: Next Steps  
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¶13. (U) In a taken question on the July 2008 failure of the WTO Doha Development Round, Ambassador Wayne noted common U.S. and GoA interests during Doha Round negotiations in limiting agricultural safeguards but differences in our approach to reducing emerging market industrial tariffs. Ambassador Wayne noted USTR Schwab's recent appeal that developed and emerging market nations build on common ground gained in seven years of negotiations to date and return to multilateral negotiations. Timerman noted the GoA's intent to protect its domestic industry and contrasted the USG's final offer to cap agricultural subsidies at the US\$ 14 billion level with current USG agricultural subsidies in the US\$8 billion range.

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Comment: Opportunity Lost  
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¶14. (C) With advance ads in newspapers highlighting participation of key members of the GoA's economic cabinet, the Council of Americas conference was widely anticipated as a platform for the Kirchner administration to clarify and re-launch its economic policy agenda. Local and international business community players hoped the GoA would use the CoA conference as a venue to announce further budget rationalization measures, including tariff increases to reduce subsidies and cuts in fiscal expenditures and to initiatives to restructure Paris Club arrears and re-open the bond "holdout" issue. Some speculated that the Kirchner administration could use the CoA conference to announce a recession of GoA "Superpower" authority to discretionally direct over-budget revenues.

¶15. (C) These expectations were not very realistic, and they were not met. The GoA line expressed by Massa, Redrado and Fernandez was in essence: the model works, the GoA will continue on the same policy path with minor adjustments, financial markets that continue to over-price Argentine risk underestimate the economy's strong fundamentals, and the GoA has the wherewithal to meet its obligations in the medium term. The consensus of international business community members present: another opportunity lost to regain investor and financial market confidence.  
WAYNE